

Leadership Lessons from Ballot Box Budgeting under Two Governors



**Daniel J.B. Mitchell
Ho-Su Wu Professor
Anderson School
School of Public Affairs**

Sept. 2005 HARRT Retreat



Job Approval for Governor and Legislature

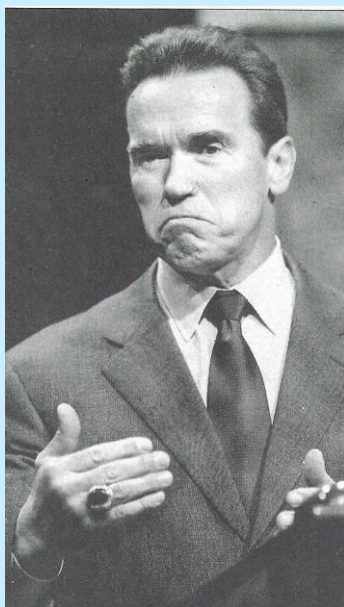
	Governor	Legislature
All Adults	34%	27%
Democrats	18	29
Republicans	69	24
Independents	38	33
Likely Voters	41	23



PPIC Aug. 2005 poll

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PPIC Aug. 2005 poll

**Legislature has never been popular.
Governors can be popular (or not).**

**“How are you today
Mr. Legislature?”**

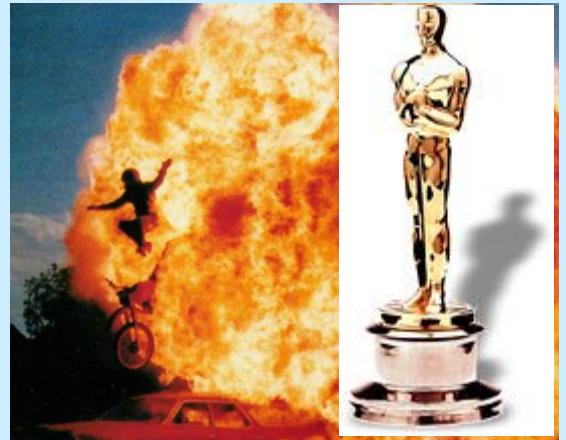


Arthur H. Samish ●

***Collier's*, August 1949**

Trivia instead of budget

- **Legislature:
Cloning Pet
Cats?**
- **Governor:
Oscars for
stuntpersons?**



Governor's Leadership Role

- Governor is elected statewide
- Legislators elected locally
- Discontent with state of the state likely to be focused on Governor rather than individual legislators
- Governor forced to “deal with” more issues than any corporate CEO
 - Bills
 - Appointments
 - Regulations
- Thus, Governor must delegate
- However, Governor can focus on (and push) a few key issues
- Governor has constitutional duty (and opportunity) to present budget ●



Leadership Lessons from Ballot Box Budgeting under Two Governors




NATION • A12
Yellow alert
Change from orange doesn't signal lowering the guard, Tom Ridge says

CALIFORNIA LIFE
Stuck on you
Tips on how to pick the right job for the right job

WEATHER • B10
Cool
56-64

The Sacramento Bee
SATURDAY January 10, 2008 • www.sacbee.com • First edition: 50 cents

SCHWARZENGER'S BUDGET PLAN

- No tax increases • \$5.8 billion in cuts • At least \$3 billion in borrowing • \$1.3 billion cut to local governments
- Grant reductions for welfare families; no inflation increases for the aged, blind and disabled
- No state layoffs until further review • Fee increases and enrollment caps at UC and CSU

Governor makes the cuts
Democrats argue plan is harsh, deceptive

Higher ed takes hit of \$750 million

Cities angered by transfer of revenue

U.S. job growth on skids; analysts scratching heads

Oak Ridge High still has 'very high' asbestos levels

INSIDE THE BEE
SPORTS: C1
A10: Sports to be in Golden country

POPE COVERAGE
CAPITAL ID: THE BOTTOM LINE

ANCHOR
Right-click on the logo and copy the URL to your browser.



Leadership Lessons from Ballot Box Budgeting under Two Governors



Hiram Johnson (1911-1917)



Hiram Warren Johnson, American lawyer, legislator, and governor of California, in his "fighting" pose. (Culver Pictures)

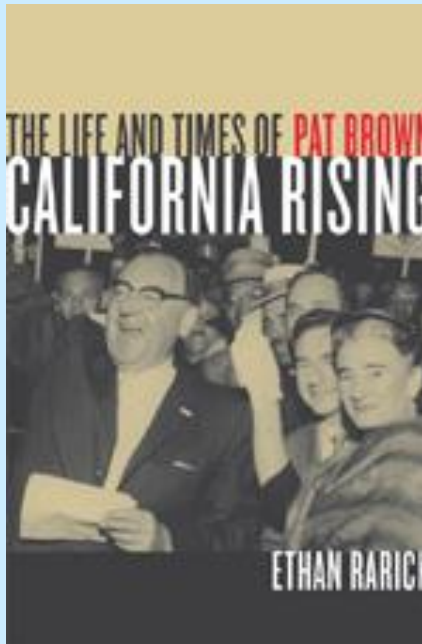
1. Initiative, referendum, recall, women's suffrage, i.e., popular electoral rights
2. Workers' Compensation

Undoubtedly, California's most influential governor.



Pat Brown (1959-67)

The Builder

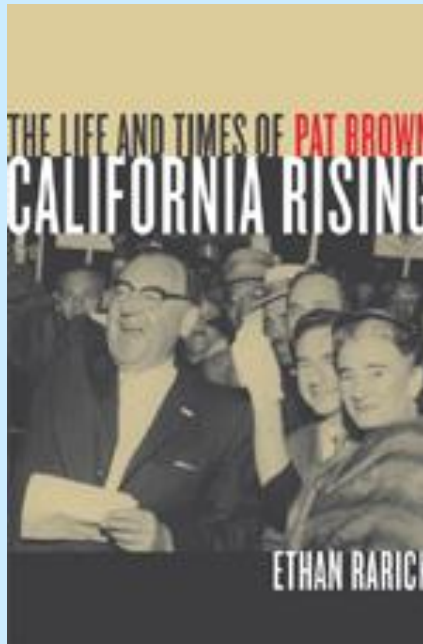


- **State Water Project**
- **Freeway Expansion**
- **Master Plan for Higher Education**



Pat Brown

Tower of Jell-O



- **Flip-flop on death penalty**
- **1965 Watts Riot**
- **1966 Budget crisis**
- **Defeated by Reagan**



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Arnold Schwarzenegger



Ronald Reagan



Parallels



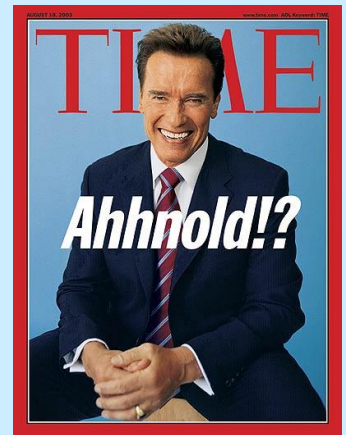
- **Movie star celebrity governors**
- **Replaced uncharismatic incumbent during budget crises**
- **Incumbents had engaged in “dirty tricks” and feuded with legislature**
- **Ballot box budgeting**
- **Authority delegators & outsourcers (unlike Davis)**





Divergence

- *Reagan: Removed inherited structural deficit with tax increase at a political cost.*
- **Schwarzenegger:** Borrowed to cover deficit; structural problem remains.
- *Reagan: Focused on a single ballot issue.*
- **Schwarzenegger:** Various issues on ballot; 3 with explicit support and 1 with implicit support. Other key issues he has promoted are not on ballot.



“It is my preference to go and work with the legislators. This is my No. 1 preference.”

-Gov. Schwarzenegger



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-Gov. Schwarzenegger



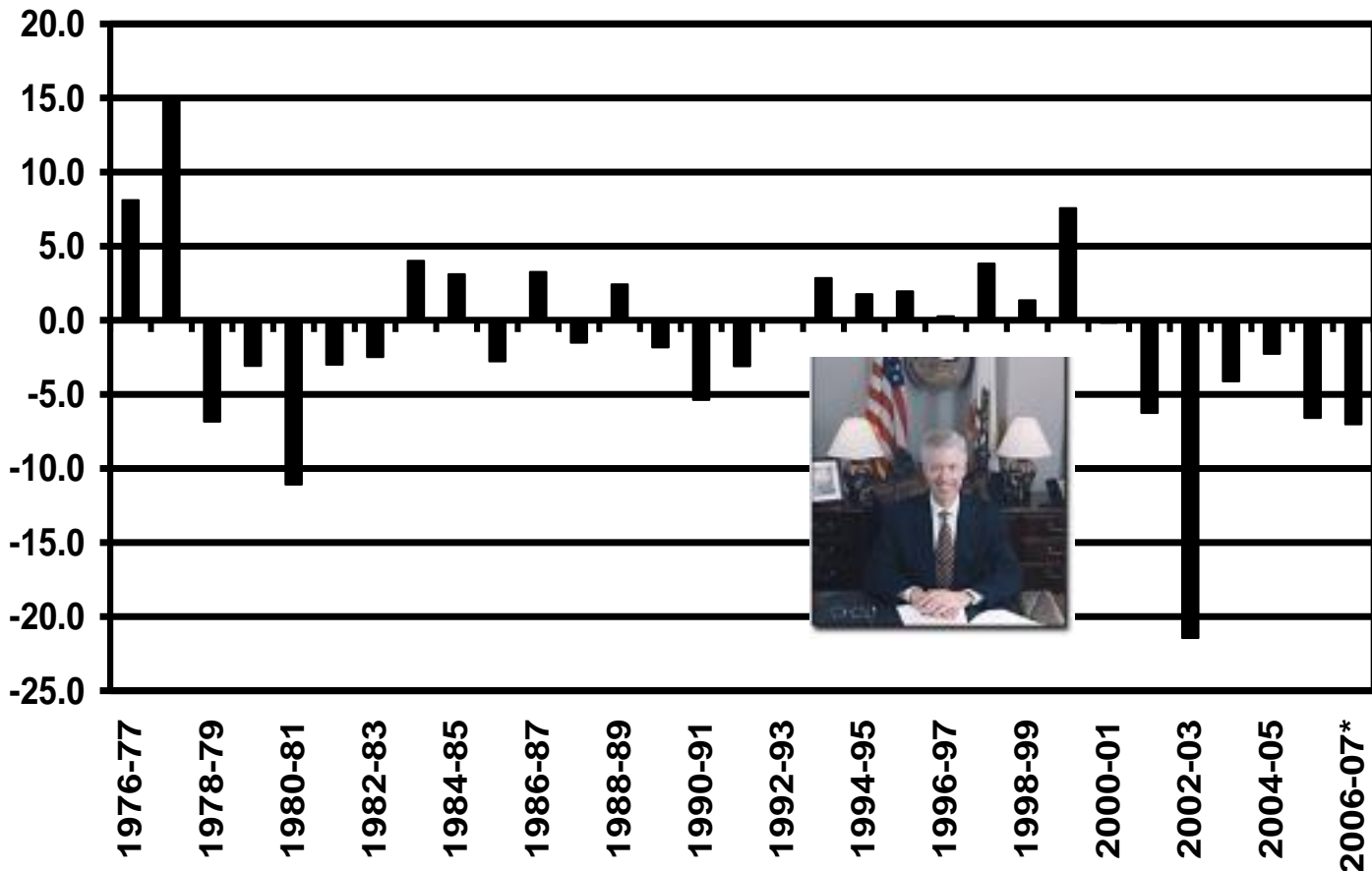
“They can join and jump on the train. No. 2, they can go and stay behind and just wave... Or, No. 3, they get in front of the train. And you know what happens then.”

Gov. Schwarzenegger



Recap

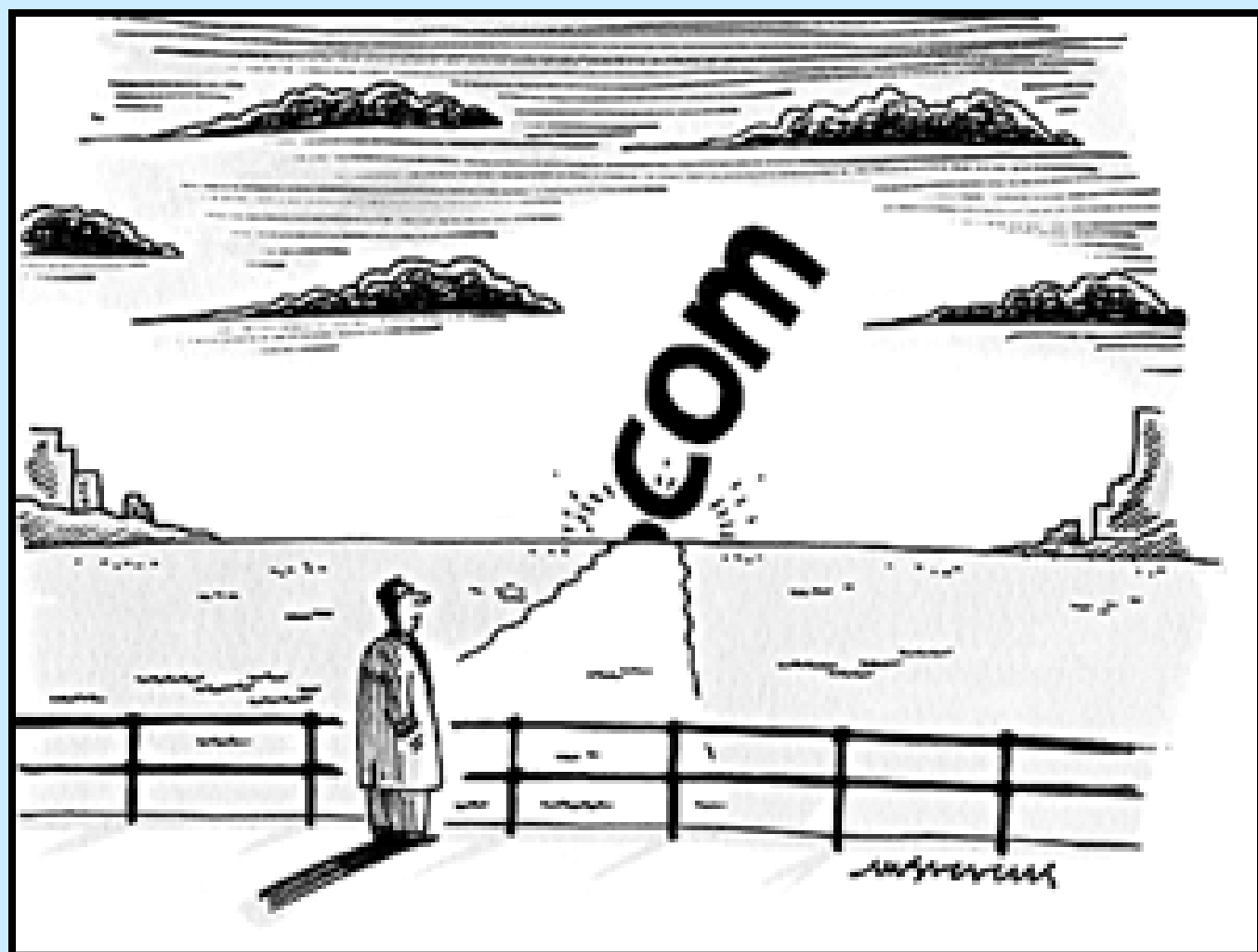
Surplus or Deficit in General Fund as Percent of Revenues and Transfers



Note: Adjusted for electricity crisis spending in early 2000s.

*Workload budget estimated by Legislative Analyst.

**Note: Small deficit at
business cycle peak**

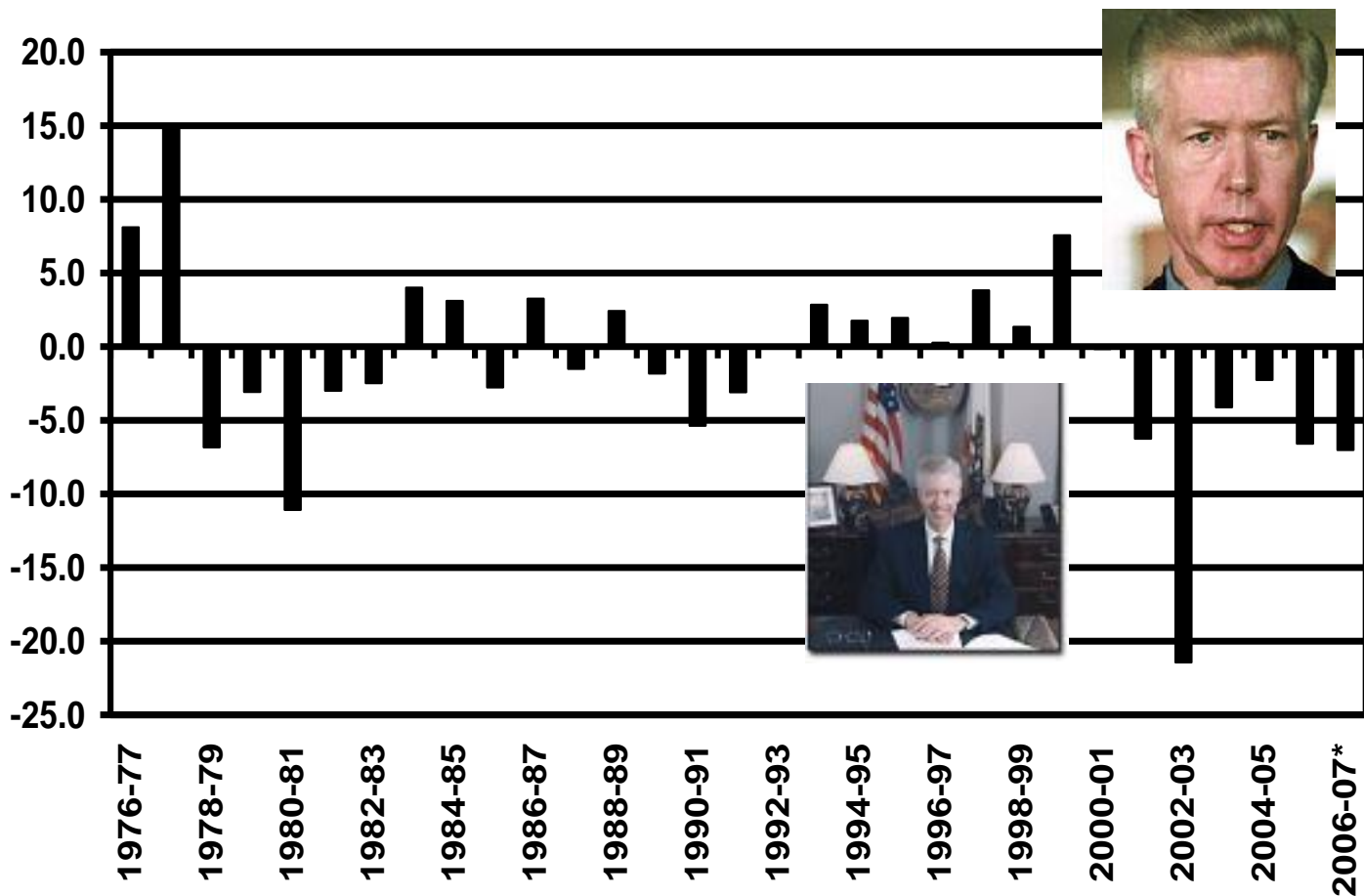


Sunset of the Davis Era



Recap

Surplus or Deficit in General Fund as Percent of Revenues and Transfers



Note: Adjusted for electricity crisis spending in early 2000s.

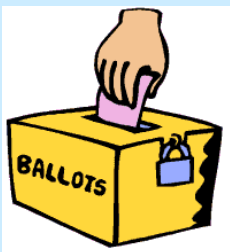
*Workload budget estimated by Legislative Analyst.



Emergency seems over...



Chronicle / Michael Macor

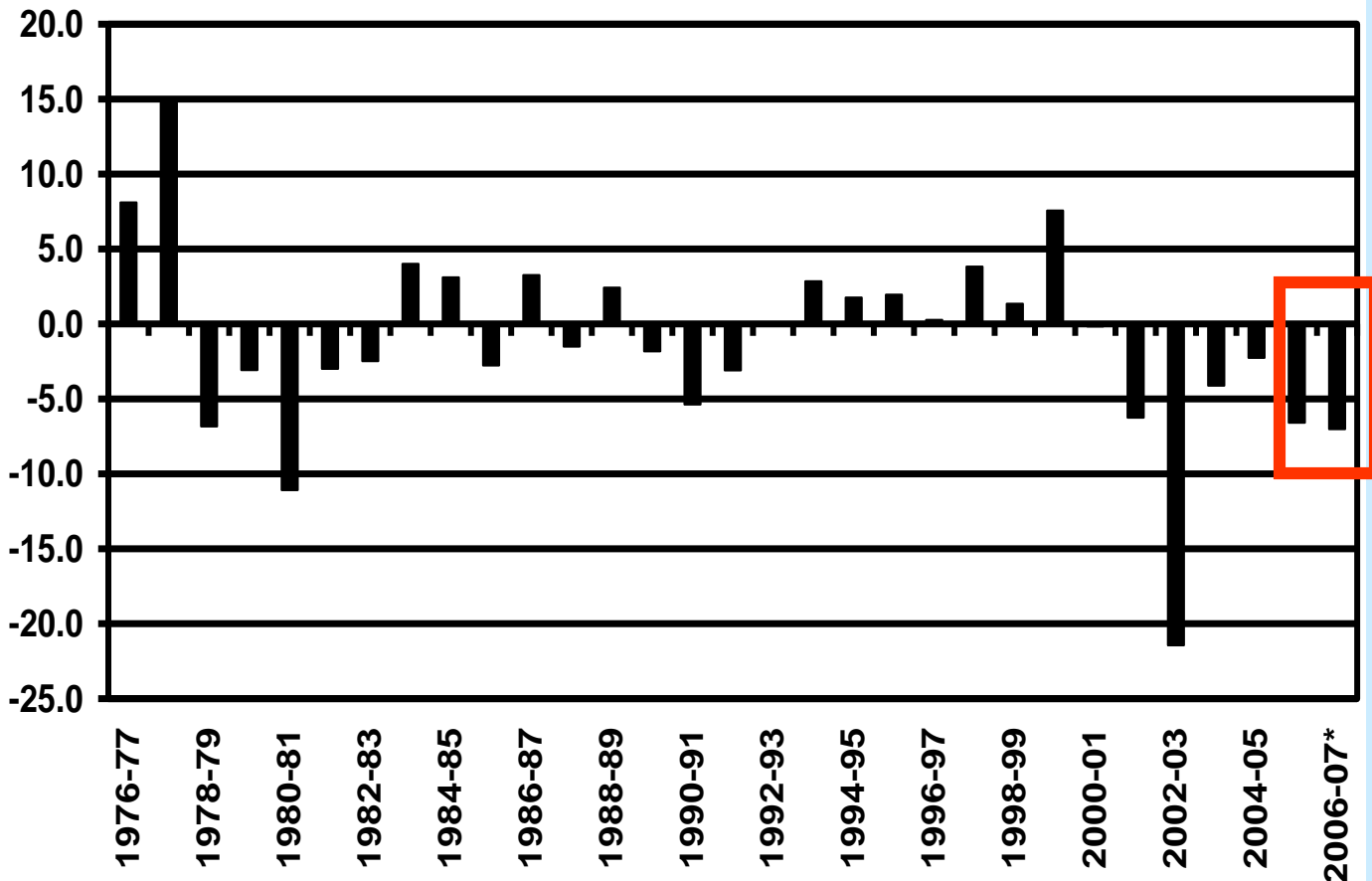


*...thanks to voter-
approved borrowing*



Leg Analyst Liz Hill: *Structural Deficit Remains*

: Surplus or Deficit in General Fund as Percent of Revenues and Transfers



Note: Adjusted for electricity crisis spending in early 2000s.

*Workload budget estimated by Legislative Analyst.

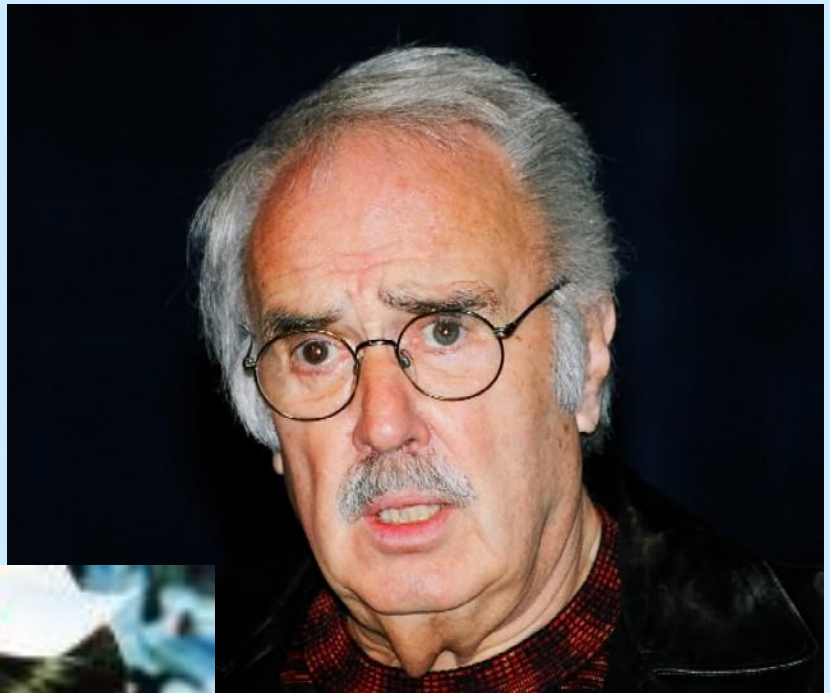






“He’s getting bad advice and following it. You know, taking on the nurses - talking about kicking their butt. I mean, who’s ever mad at a nurse unless, you know, they’ve given you an enema or something.”

Former Senate leader John Burton



Implicit Model



- **Unions give money to Democrats who want to tax and spend on public programs**
 - Republicans won't tax (but will spend)
 - Chronic (long-term) budget problem results
- **Legislative self-districting leads to safe, polarized seats**
 - Safe, polarized seats and 2/3 vote requirement leads to gridlock and (short-term) budget crisis



Solution from Model?

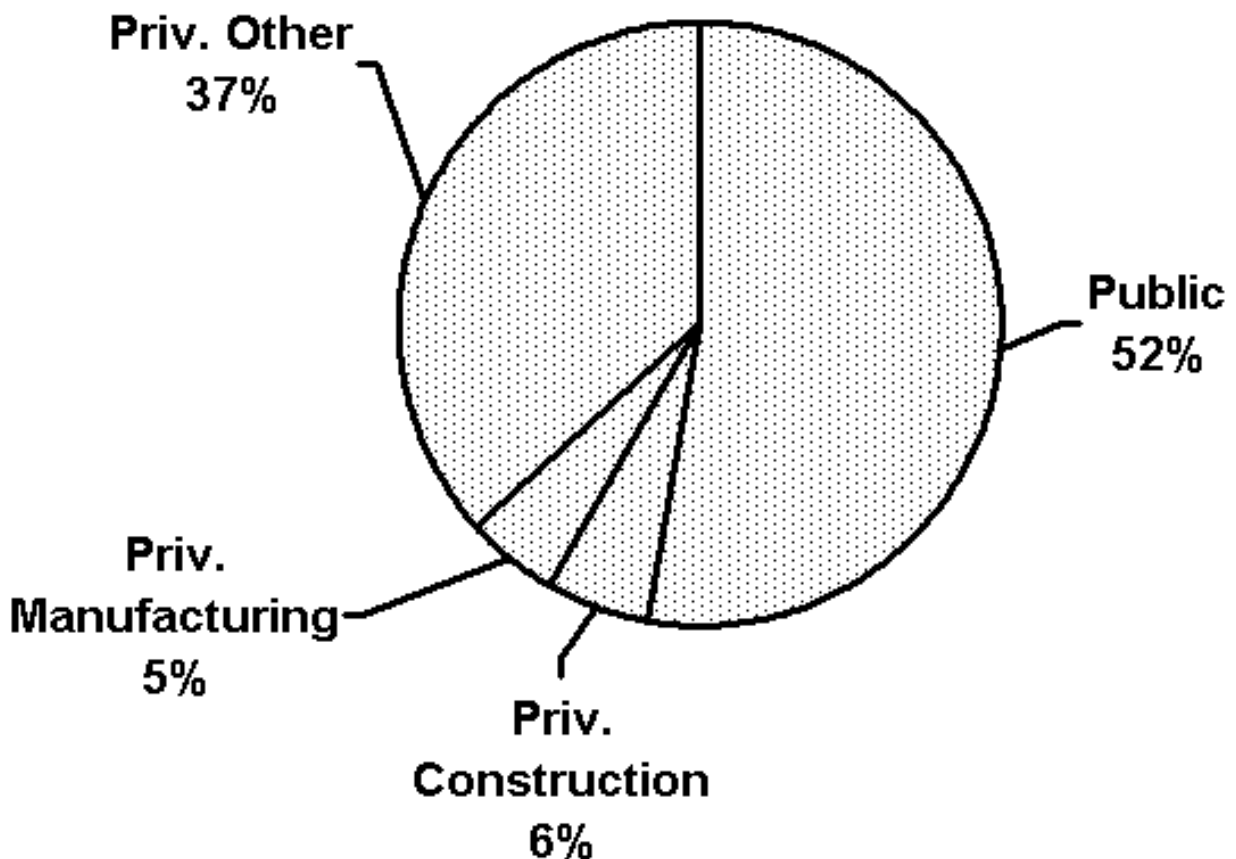


- **Reduce money unions have to give to Democrats**
- **Change to neutral redistricting to make seats competitive and centrist**
- **Create mechanism so a budget is always in place even if gridlock occurs**
- **Put more budgetary authority in hands of Governor if Legislature can't make unpleasant decisions**



The Union Issue

Workers Covered by Union Contracts: 2004

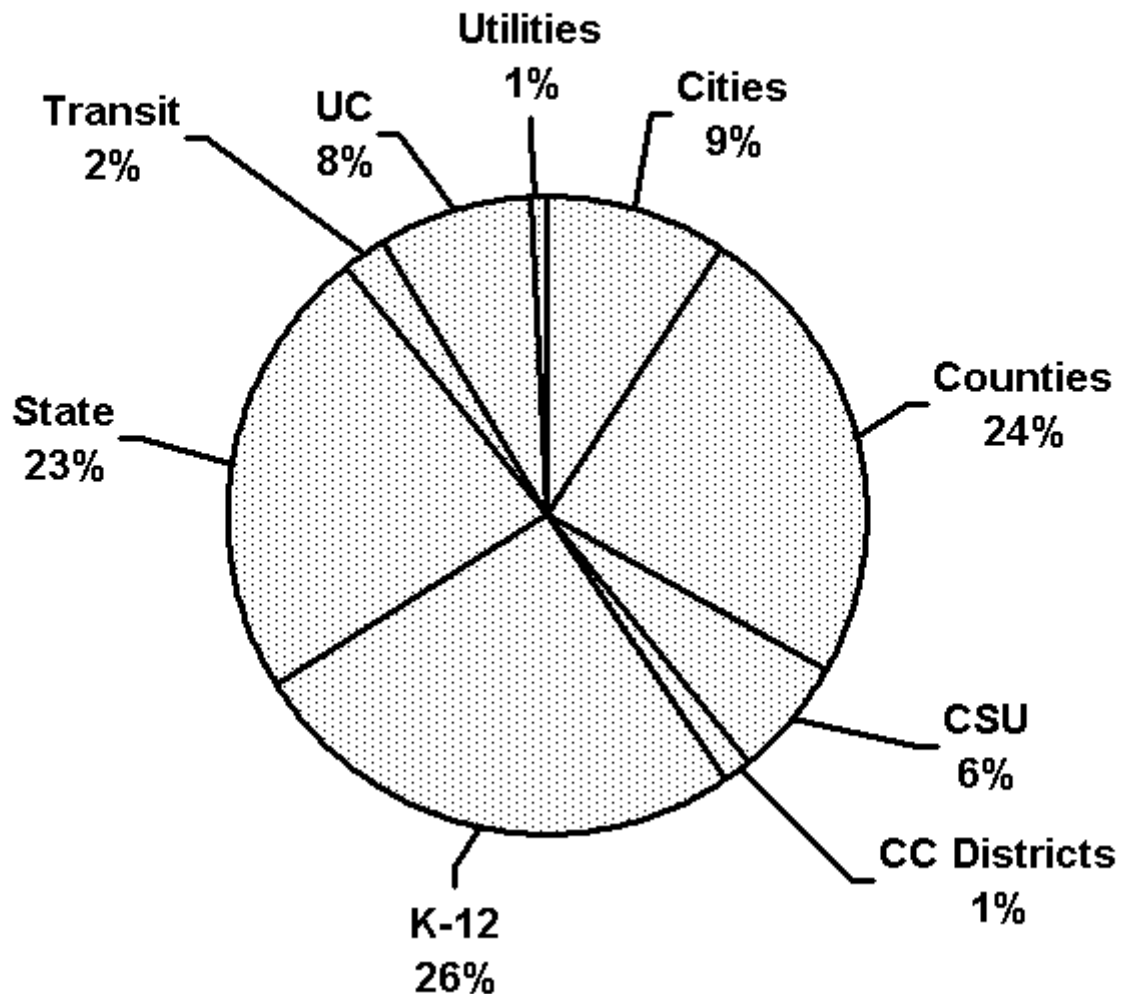


Half of union workers are now in public sector, mainly state and local.



The Union Issue

Distribution of Public Sector Workers Under Major Union Contracts

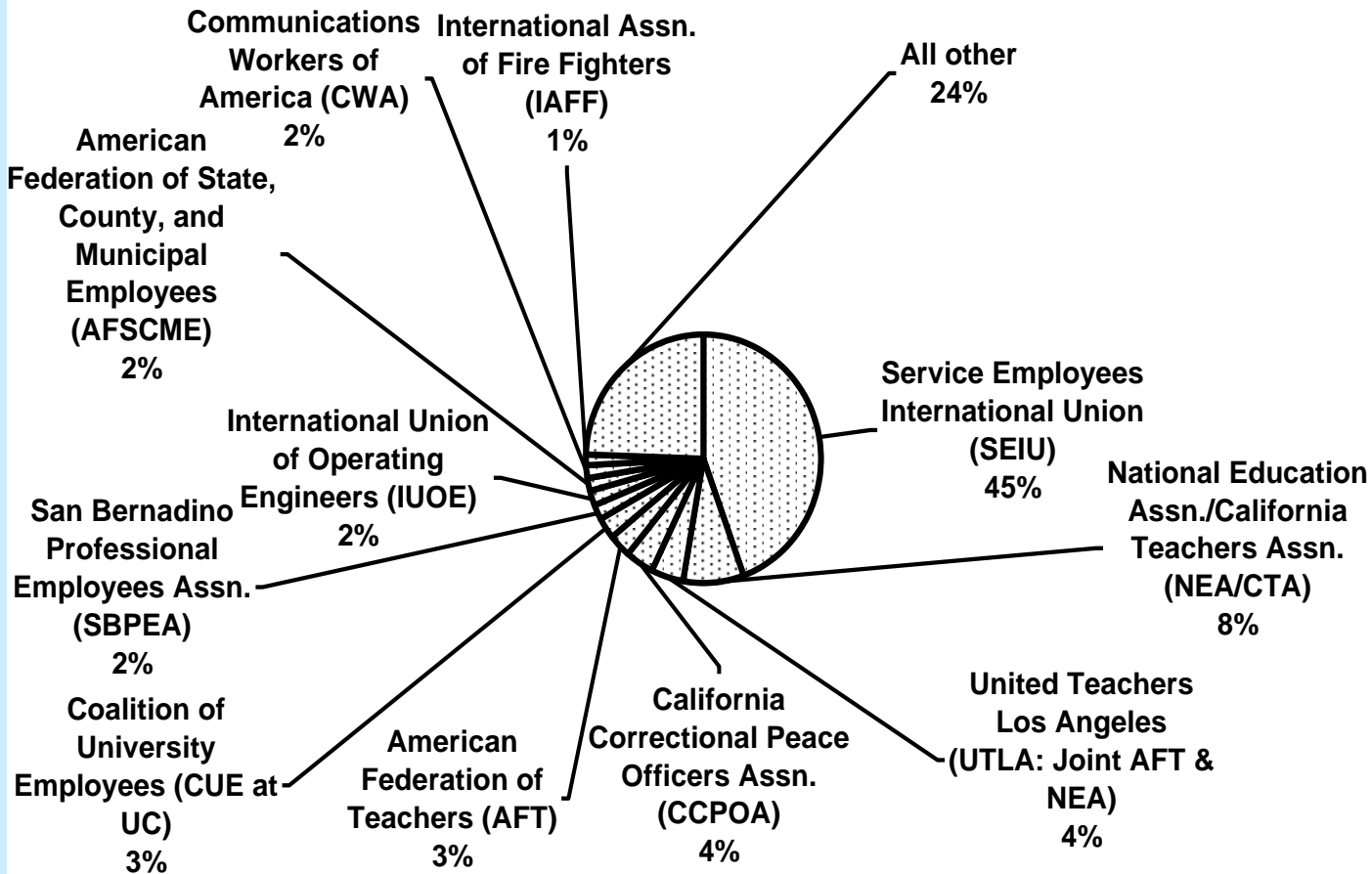


Over 6 out of 10 state and local union workers under major contracts are in local government.



The Union Issue

Distribution of Public Sector Workers by Major Union Contract Coverage



A number of unions in the public sector also have significant private membership.

The Union Issue



Prop 98 promises made last year

Prop 74 (“tenure”)

Oxytocin anyone?

LA Times 8/26/05

Power Outages Roll Through Southland

Major transmission line's loss and high temperatures blamed for half-hour blackouts.

By MONTE MORIN
AND NANCY WHITMAN
Times Staff Writers

Electricity

A major transmission line's loss and higher temperatures blamed utility officials to orchestrate rolling blackouts throughout Southern California on Thursday, leaving between 250,000 and 500,000 homes and businesses without electricity for 30 minutes or more, utility officials said.

The California Independent System Operator, the not-for-profit entity that oversees the state's power grid, declared a Stage 3 transmission emergency just before 4 p.m., after a long-distance transmission line connecting southern Oregon and Southern California "tripped off line," power authorities said.

The blackout affected a wide swath of the Southland, including

Ventura, Camarillo, Rancho, Huachuca, San Bernardino, La Jolla, Chino Hills. Though the outage was the last of a series of emergency warnings.

Despite the period, the largest electricity outage in the region

of 2000-01 and prompted Gov. Arnold Schwarzenegger to make an emergency stop at Cal-ISO's

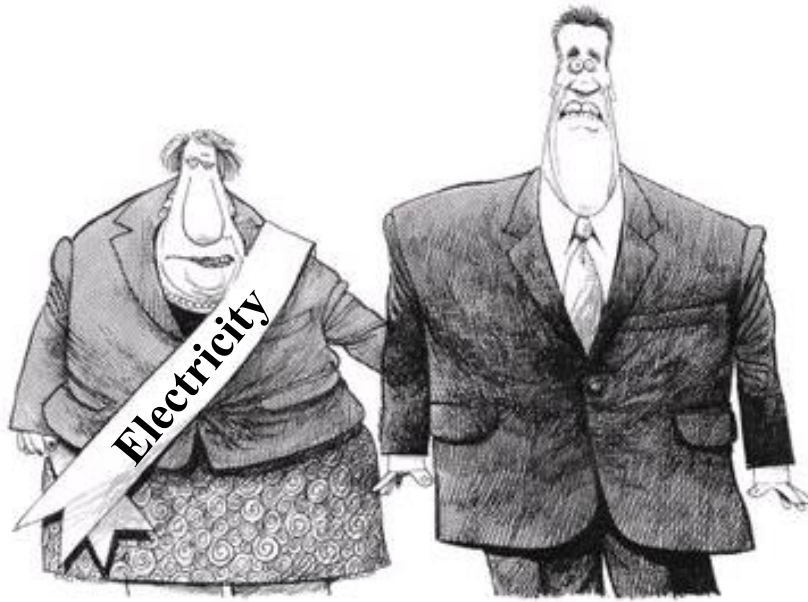
Budget



Groping for a Solution



Groping for a Solution



California Performance Review

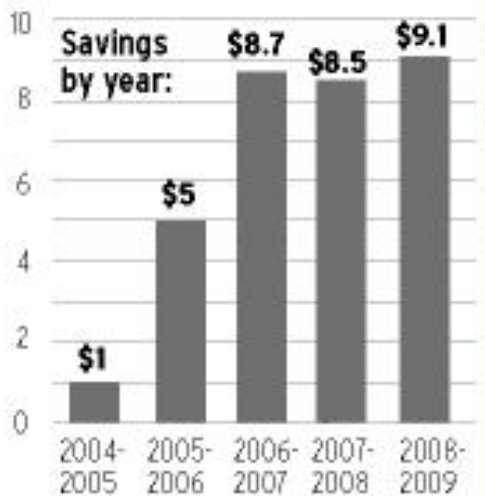
Bringing California Back

Accountability

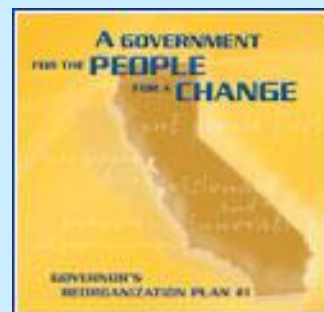


California Performance Review savings

A panel of government experts has proposed ways to save \$32 billion over five years. Gov. Arnold Schwarzenegger will implement some parts of the plan by executive order.



The Register



Not on ballot



California Hydrogen Highway



Not on ballot

“(The governor’s) got 20 things which are different, and play to different values, and are not easy to explain, no matter how much money you throw at it.”

Barbara O’Connor, CSU-Sacramento



“Team Arnold seems to be playing by Blanche Dubois rules, depending on the kindness of strangers... Thanks to their incompetence, he is being mercilessly dragged through the political muck.”

Tony Quinn, Political consultant



AP / Paul Heston



Sacramento Bee / John Decker via AP



Sacramento Bee / John Decker via AP



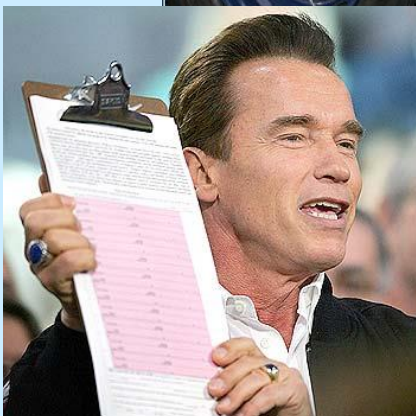
Sacramento Bee / John Decker via AP

**Whose
plan?**



**Assemblyman
Keith Richman**

Public Pension Initiative (Terminated)



**Whose
plan?**

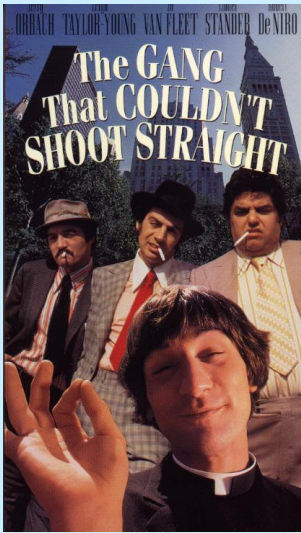


Lewis K. Uhler

Paycheck Protection Initiative On the ballot



Prop 75



Ted Costa

Redistricting Initiative On-off-off-on the ballot



Prop 77



?

Merit Pay for Teachers Initiative (Terminated)



Longer Tenure for Teachers Initiative (Substituted)

Prop 74





Electricity Initiative

On-off-on the ballot



**But a re-regulation plan not favored
by the Governor**

Prop 80





**Allan
Zaremberg**



**R. William
Hauck**

Budget Initiative

On the ballot



Where was Tom Campbell?



Prop 76



Prop 76 Components



- Total spending can rise only by annualized growth rate over past 3 years
- If receipts exceed spending limit, funds accumulate in special funds
- GF surplus allocated by formula to reserves, paying off debts of various types, transportation
- If no budget enacted on time, old one stays in effect indefinitely
- If revenue falls 1.5% below forecast, Governor can declare emergency and cut budget if Legislature doesn't act
- Borrowing from transportation inhibited
- Prop 98 (K-14) modified:
 - Eliminate ratchet effect of above-minimum spending
 - 2/3 vote can take K-14 money and not repay





Brown's Budget Problem

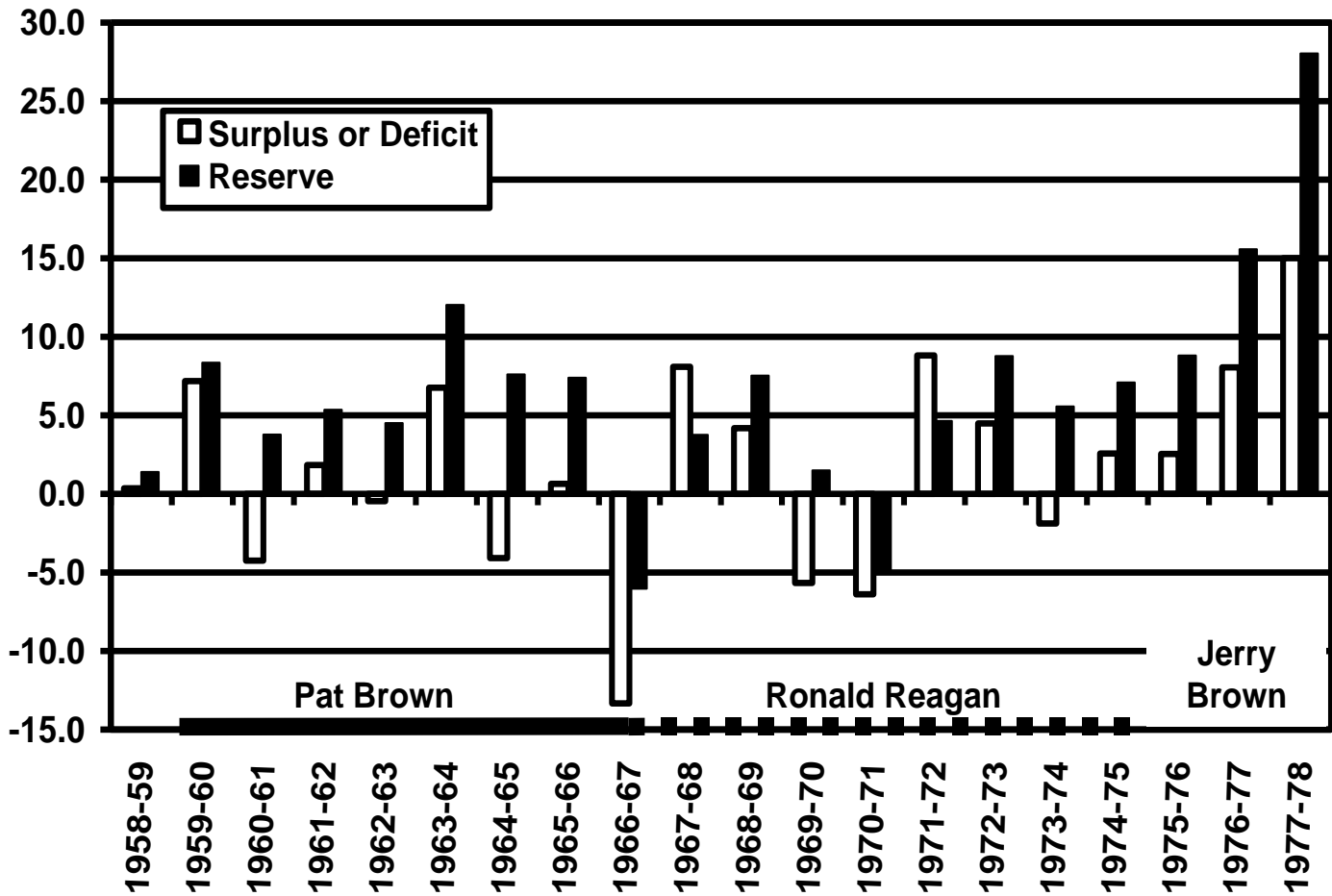


Jessie Unruh a.k.a. “Big Daddy”

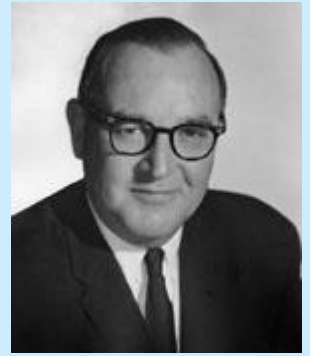


Big Deficit for 1966-67

Surplus or Deficit and Reserve as Percent of Receipts: General Fund

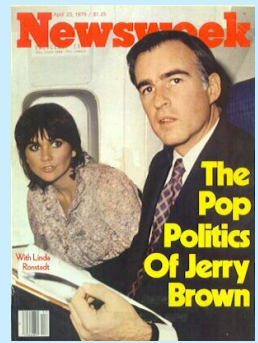


Brown's Budget Problem Becomes Reagan's

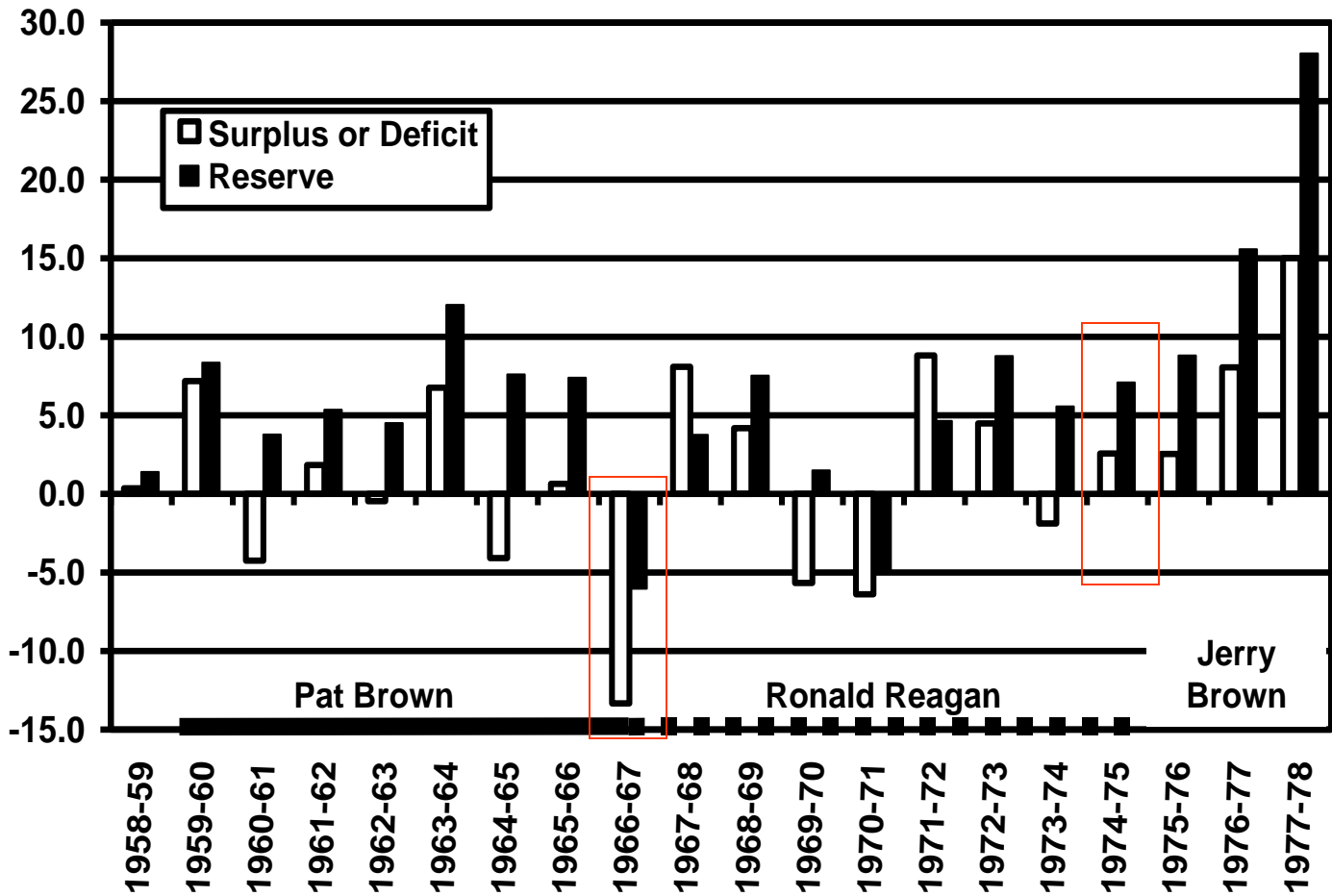


- **Ongoing debate over withholding of income tax**
- **Debate becomes confused with cash vs. accrual accounting**
- **Unruh-Brown feud plus election year means no help from Legislature**
- **Switch to accrual but treated as if it were a switch to withholding**
- **Brown loses 1966 election to Reagan who inherits budget crisis**
- **Reagan proposes cutting spending 10% across the board**
- **When that plan fails, Reagan raises all major taxes substantially**

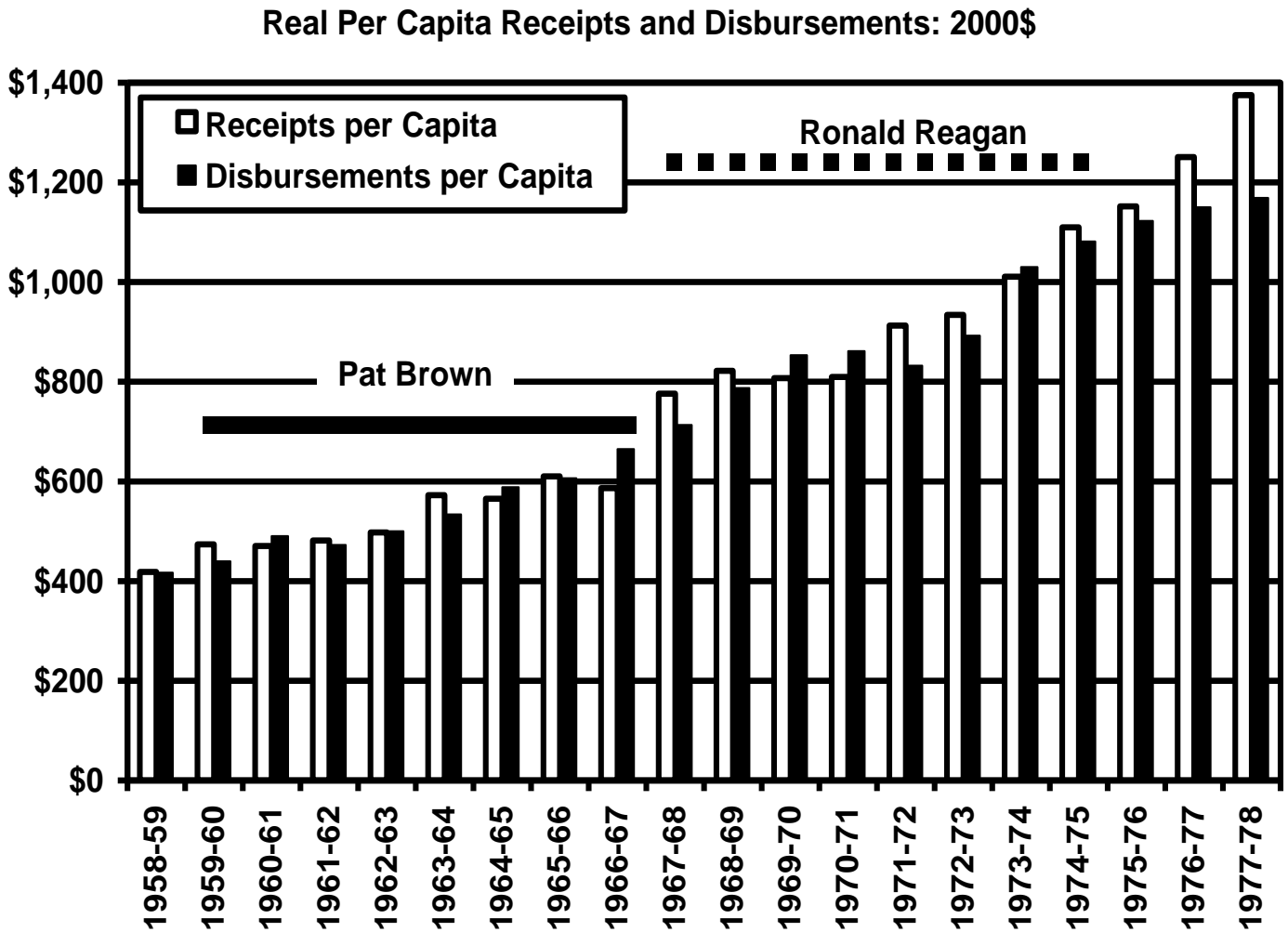




Surplus or Deficit and Reserve as Percent of Receipts: General Fund

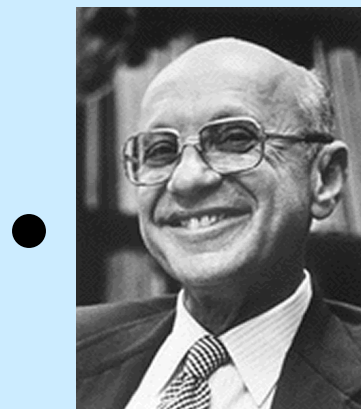
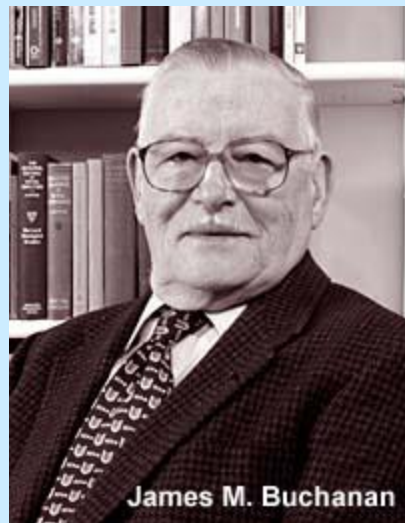


Real spending up faster under Reagan than Brown, but Reagan raises more taxes and leaves a positive reserve.



Reagan's Proposition 1 (1973)

- **Economist James Buchanan and others theorize that existing democratic institutions + public employee self-interest will oversize the public sector**
- **General national conservative interest in some kind of (federal) budget constitutional amendment**
- ***Problem #1:* Reagan had overseen big tax increases and spending increases**
- ***Problem #2:* Despite growing property tax revolt, Reagan had opposed the two earlier Philip E. Watson property tax initiatives**



Milton Friedman



Reagan's Proposition 1

- **Legacy** needed for 1976 presidential bid that would counteract the Reagan tax increase(s) and spending increases
- **Idea:** Pass a constitutional amendment at the state level
- **Process:** Delegate and outsource the development (to an academic task force) and passage (to an external committee) of such an initiative



**Michael
Deaver**



**Lewis K.
Uhler**



**J. Clayburn
La Force**



**W. Craig
Stubblebine**



**William A.
Niskanen**

Reagan's Proposition 1

- **Reagan vs. Legislature.** Assembly Leader Robert Moretti becomes opposition leader
- *Doubts of key Republicans including Controller Houston Flournoy*
- **Litigation/controversy** regarding paying for Task Force
- *Task Force comes up with language*
- **Petition route taken** when Legislature won't put amendment on ballot
- *Problem in signature gathering within deadline. Professional signature gatherers hired.*
- **Special election called** raising cost issue



**Robert
Moretti**



**Houston
Flournoy**

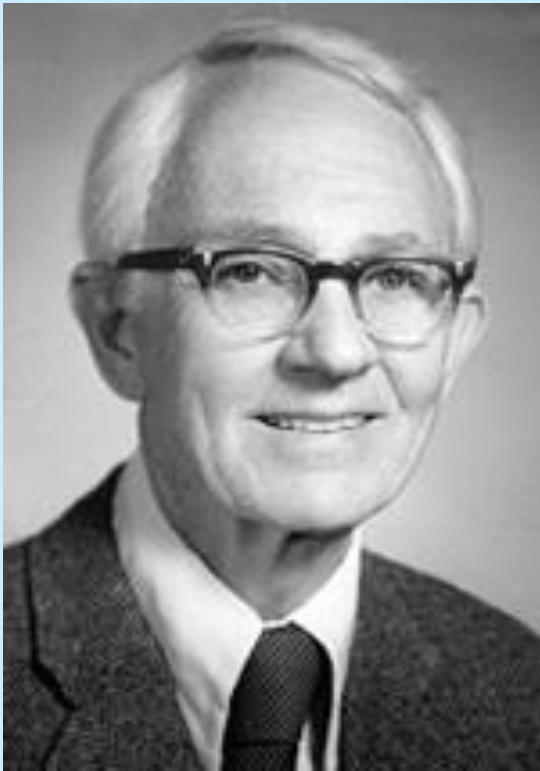


Components of Prop 1

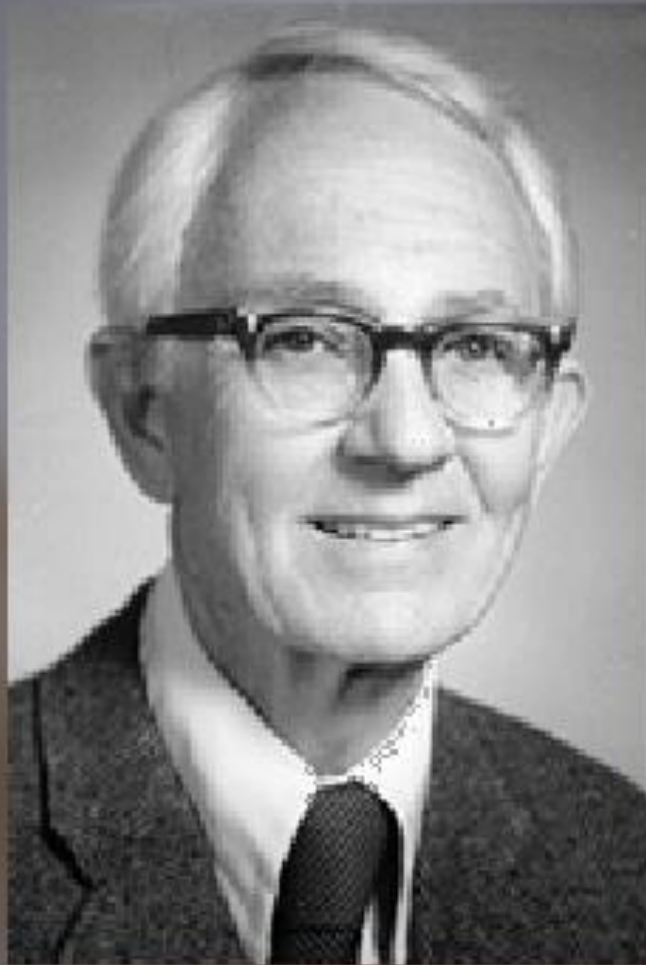
- **Limit state revenue as percent of state “personal income”**
- **Ratchet down from estimate 8.5% to 7% by annual 0.1% increments**
- **Floor: Revenue not to fall in real, per capita terms**
- **Freeze rate (not base) of property tax**
- **2/3 legislative vote for tax increases with popular majority approval**
- **Emergency provisions**



Battle with Legislative Analyst A. Alan Post over budgetary implications



Saint Alan



Additional Problem: In 1966, Reagan said he would solve the budget problem by appointing Alan Post as finance director.



Initiative language problem leads to fuzzy budgetary interpretation by Attorney General Evelle Younger



Younger says a court *might* accept argument that what Prop 1 literally said is not what framers intended.



The Hauck-Moretti Report raises concerns about Prop 1



**Yes, it's the same
Hauck of
Schwarzenegger's
Prop 76!**

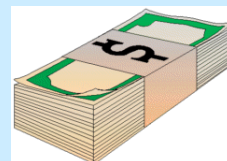
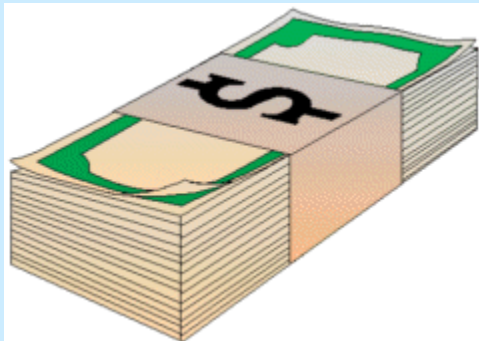


Communication

- *“Personal” telephone calls from governor*
- **Radio**
- *Television*
- **Newspapers**



Prop 1 proponents outspent opponents by about 3 to 1



The Complexity Issue



What not to say in public:

When asked whether the average voter should understand the language of Prop 1, Reagan says: “*No, he shouldn’t try. I don’t either.*”

“State Tax Population-Inflation Quotient”

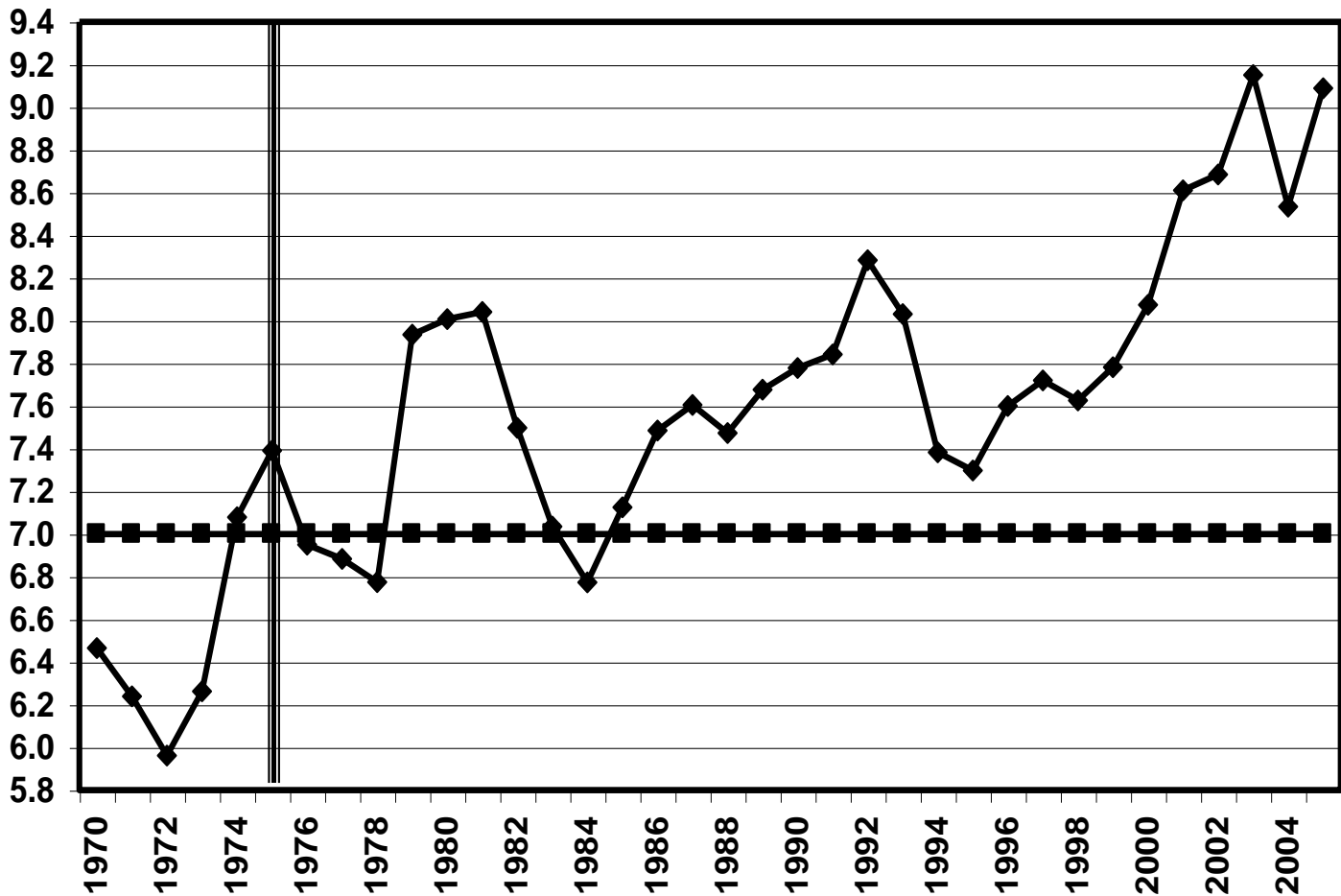
Great idea for a movie:



**What if we could send
someone back in time
to get rid of Moretti
and Post and thereby
pass Prop 1!!!**

What if?

State Budget Spending as Percent of Personal Income:
Fiscal Year Ending on June 30 of Date Shown



Given revisions in the personal income series, what would a court have done? (What happened to the 8.5% assumption?)

Political Leadership

- Spadework with allies, neutrals, potential opponents is useful exercise
- Public sense of emergency helps
 - *Reagan: Budget surplus*
 - *Schwarzenegger: Props 57 & 58*
- Focus is good but not sufficient
 - *Reagan did*
 - *Schwarzenegger hasn't*
- Delegating and outsourcing
 - *Trust...*
 - *...but verify (on your focus)*
 - *Verify staff competence*
 - *Verify that it's your agenda*



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